

EXHIBIT 27

Treasury's Support for High Priority Projects
and Special Endeavors

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APPENDIX 1: Letter from Deputy Assistant Secretary to the Director, Office of Evaluations, dated October 16, 1997

APPENDIX 2: Memorandum from General Counsel to the Inspector General, dated November 19, 1997

The CDFI officials solicited assistance from private organizations, as well as other Treasury bureaus. In July 1996, CDFI hired an independent consulting firm to evaluate proposals submitted by several Treasury organizations to provide financial and accounting services for CDFI. The consulting firm was also retained to identify alternative procedures for reviewing award applications. Additionally, the CDFI Director solicited comments from the OIG, as well as OGC in preparing CDFI's interim operating regulations.

CDFI officials consulted with officials at other Federal agencies on certain policy and procedural issues. When confusion arose as to whether CDFI awards were covered under the Federal Acquisition Regulations, CDFI staff consulted with officials from the Department of Housing and Urban Development, Small Business Administration, and Department of Commerce. Additionally, when confusion arose within Treasury's personnel office over hiring a PMI, CDFI staff contacted the Office of Personnel Management for clarification.

GOOD O' BOY POLICY REVIEW

Good O' Boy Policy Review

On July 11, 1995, public attention was drawn to allegations of misconduct by Federal, State and local law enforcement agencies over incidents that occurred during an annual retreat commonly referred to as the "Good O' Boys (GOB) Roundup". The following day, a local television station in Washington, D.C., focused on the misconduct allegations and claimed that Federal agents had organized the GOB "Roundup". On July 17, 1995, the Secretary of the Treasury announced that a comprehensive and independent investigation would be conducted by the Inspector General and the Under Secretary for Enforcement.

The GOB investigation consisted of two facets. The *first facet*, conducted by the Office of Inspector General, involved fact gathering about the nature and scope of participation in the GOB Roundup by Treasury law enforcement personnel. The *second facet*, conducted by the Office of Enforcement, was a two-part policy review. These parts included: 1) conducting a retrospective review to determine applicability of any existing law, policy, rule, or regulation to the facts found by the Inspector General and 2) reviewing all current laws, rules, regulations, procedures and policies to determine whether existing policies were adequate and sufficient to prevent participation by Treasury personnel in similar events in the future.

More than 50 individuals participated in the GOB policy review, which took 10 months to complete. The Treasury Secretary established a Citizens Review Panel, composed of prominent citizens of unquestioned expertise and integrity on matters relating to race, the law, and law enforcement, to monitor and evaluate the review. The panel also reviewed the Inspector General's final report. The Under Secretary for Enforcement also formed a Policy Review Team directed by attorneys from outside of Treasury. This team included a Writer/Editor, Logistics Coordinator and an Administrative Assistant. The team's efforts were supported by liaisons from each of Treasury's law enforcement agencies and components. Additionally, the Department's General Counsel personally participated in and appointed several attorneys from his office to assist in the review.

The GOB policy review involved a detailed analysis of laws, policies, rules and regulations concerning law enforcement misconduct. The comprehensive nature of the review warranted a sophisticated document retrieval and tracking system to control information. A contractor was used (by way of modifying an existing contract) to develop and run a new system for the GOB policy review and provide related systems training to Treasury's Automated Systems Division (ASD) staff. The ASD provided initial system requirements to the contractor.

In April 1996, the Office of Enforcement issued a report summarizing the results of the review. In short, the review found that current Treasury conduct rules were sufficient to enforce discipline in cases where it was merited. However, it was determined that existing

rules, policies and procedures needed to be clarified and fully implemented. Consequently, the report identified 15 recommendations for improving Treasury's conduct rules.

Total funding made available for the GOB policy review was \$1,029,000. The contract accounted for \$900,000, of which DO provided \$600,000 and the 4 law enforcement bureaus provided \$300,000 (\$75,000 each). An additional \$129,000, also provided by DO, was allocated to noncontract expenses. Actual expenditures for the GOB Policy Review totaled nearly \$583,000 as of June 30, 1996².

Federal Financing Bank

The Federal Financing Bank (FFB) was created by the Federal Financing Bank Act of 1973, (Public Law 93-224). As an instrumentality of the U.S. Government under the general supervision of the Treasury Secretary, FFB helps Federal agencies finance the marketable federal securities they issue or guarantee. The creation of FFB was necessary because the Congress determined that the demands for funds by Federal and federally assisted borrowing programs were increasing faster than the total supply of credit and that this borrowing was not adequately coordinated with Federal fiscal and debt management policies.

The FFB is authorized to make commitments to purchase and sell, on terms and conditions it determines, any obligation which is issued, sold or guaranteed by a federal agency. To finance the FFB's purchase of agency debt, loan assets and guaranteed securities, FFB borrows the required funds from the Department of the Treasury, paying the same interest rates Treasury would pay if it borrowed the funds in the market. This results in lower costs because Treasury borrows the funds to finance the debt securities, saving administrative and underwriting costs for the participating agencies. Since FFB does not receive Federal appropriations, its operating funds are raised from loaning funds to its borrowers at a rate of one-eighth of one percentage point greater than the rate charged to FFB by Treasury.

The FFB, its property, its franchise, capital reserve, surplus, security holdings and its income are exempt from all federal and state taxation. Likewise, FFB is subject to the budget and audit provisions of the Government Corporation Control Act that are applicable to wholly owned government corporations named in 31 U.S.C. § 9101(3). The FFB also has a Board of Directors composed of five members which includes the Secretary of the Treasury who serves as Chairman.

² An August 2, 1996 Treasury OIG consulting report, OIG-CA-96-003, stated that actual expenditures for the GOB Policy Review totaled nearly \$583,000 as of June 30, 1996. This total does not include contractor billings for August and September 1996, the last 2 months of the contract. As of June 30, 1996, an additional \$86,000 was incurred, but unpaid.

While FFB has existed within the Department for 24 years, it has experienced a significant increase in requests for new loan products and financing arrangements. The FFB's total operating budget for Fiscal Year 1996 was about \$3.6 million.

METHODOLOGY

This review was conducted by OIG evaluators and auditors. We applied a case study approach to identify lessons from previous high priority projects and special endeavors initiated within Treasury which could be applied to future Departmental endeavors. Our work was conducted between October 1996 and March 1997 in accordance with the President's Council on Integrity and Efficiency Quality Standards for Inspections.

Specifically, our approach was to select four individual case studies to review. Traditionally, Treasury has implemented and maintained numerous special endeavors (i.e., special projects, initiatives, programs, task forces, etc.). Accordingly, our selection universe was extremely broad and diverse, including all Treasury endeavors implemented or being maintained.

Our methodology was to select cases that would be characteristic of the diversity of endeavors that are initiated or maintained within the Department. In making our specific selections, we considered various criteria including the level of significance and public interest, duration of the activity (completed or being maintained), and level of support required. Although each case selected had unique characteristics, our objective was to identify functional operating elements common to all four that could be applied to future endeavors. As a result of this process, the following endeavors were selected to review:

- Currency Redesign Project
- Community Development Financial Institutions Fund
- Good O' Boy Roundup Policy Review
- Federal Financing Bank

For each case study, we first conducted research to obtain a detailed understanding of the pertinent background information. This research included reviewing prior General Accounting Office, OIG and financial reports and articles for each endeavor. Then, we conducted detailed interviews with a variety of officials, including endeavor staff and Treasury functional managers within DO and the Office of the General Counsel (OGC), who were directly involved in implementing the endeavor. These interviews included documenting Treasury staff involvement in efficiently and effectively meeting the endeavor's required needs. Standardized interview guides were used to assist in documenting Treasury's involvement in each case. We also analyzed various operating and policy documents.

Finally, while adopting a lessons learned approach, we evaluated the results of each case study to identify common elements. From these elements, we developed suggestions that could assist and better enable Treasury to adequately support high priority endeavors within the Department.

RESULTS OF CASE STUDIES

The following four case studies illustrate various lessons learned in Treasury's ability to provide support for special endeavors. These cases reflect examples that are characteristic of the nature, type and extent of endeavors at Treasury. For each case, we have prepared a summary identifying the issues, as well as how they were resolved by Treasury officials.

CURRENCY REDESIGN PROJECT

Implementation Strategy and Approach

Our analysis of the Currency Redesign for the \$100 bill found that Treasury developed an effective strategy and approach for executing the effort. The Treasury Department learned a valuable lesson from an earlier currency redesign effort that took place in 1990. This lesson was that the Department could not merely rely on its established internal structure to address similar currency redesign efforts. Specifically, the adequacy of public information about currency changes was critical to the worldwide success of any redesign efforts.

In preparation for the redesign launch, given the previous 1990 redesign experience, the Under Secretary for Domestic Finance was given responsibility for an educational and public relations campaign to familiarize the U.S. and more importantly, certain foreign countries with the new currency. Accordingly, Treasury assembled a multi-agency task force to execute the redesign effort. This group was given a clear mission and well defined goals for implementing the currency changes. A team leader was quickly designated and given the responsibility of developing a comprehensive implementation plan. This plan included obtaining a thorough understanding of the nature and extent of the operation to be performed, as well as making key initial tactical decisions on implementation.

In developing its strategy, Treasury identified the needs of the project and then acted to efficiently meet those needs. The Assistant Secretary for Financial Markets was delegated responsibility for the public relations campaign for the currency redesign effort. Acknowledging that the redesign effort is highly complex and involves the international financial markets, Treasury, through a competitive bid, hired an international public relations firm. This firm provided expert assistance on how the new currency could quickly gain worldwide recognition and acceptance and also facilitated coordination between governmental agencies, resulting in a smooth launch. The public relations campaign focused heavily on the Former Soviet Union because of the unique economic and financial situation in those recently independent countries.

Senior Management Oversight

The currency redesign effort had strong senior management support and commitment throughout the project. This level of support enabled high level intervention when roadblocks occurred. A member of the task force commented that there was a need for "higher up management" to intervene in order to emphasize the priority of the effort and to convince others of the importance of the project. However, overall, there were no major problems in obtaining assistance from Treasury's Departmental Offices.

Another member of the task force stated the opinion that generally when quick assignments are put together at Treasury, there are often difficulties in obtaining the necessary support and resources. In these instances, there tends to be a feeling that support personnel have delayed assistance because of resource concerns. However, in the case of the currency redesign project, strong senior management oversight resulted in clearly defined goals, staff responsibilities and budget resources.

Expertise/Flexibility of Participants

The currency redesign task force was made up of about five individuals, including representatives from the Department of the Treasury, Federal Reserve Board and the U.S. Information Agency. The team was led by a Treasury employee with extensive experience and credibility within the Department. More importantly, the team leader had the necessary "in house" expertise to complete the project. In addition, the team leader had access to the highest levels of the Department. This was essential to work through periodic roadblocks and keep the project on track. Members of the task force worked closely together and accepted cross functional duties, assuming varying roles during the project. The team leader described the participants as "problem solvers," not "reactors."

The contracting officer's technical representative for the contract with the international public relations firm was a Treasury employee. This individual had substantial procurement experience with an ability to quickly and accurately accomplish tasks within the requirements of the Federal Acquisition Regulations. Once it was determined that such procurement expertise was essential to the redesign effort, this individual became a permanent member of the project team. The contractor, the Department of State and the Treasury task force staff worked closely together and all parties involved demonstrated a strong commitment to the project's success. The effort was well executed and accomplished under budget.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Strategy Development

Treasury did not develop written implementation guidance and did not, in some respects, execute and oversee a well-planned strategy for implementing CDFI. A well-planned strategy arguably includes: 1) conducting a thorough legislative analysis; 2) deciding where and how the program will fit into the organization; 3) performing a comprehensive assessment to identify the program's needs; and 4) assigning a qualified team to oversee implementation activities.

In July 30, 1997 comments to our informal draft report, the Deputy Assistant Secretary for Administration indicated that efforts were made to obtain analyses of the legislation. We obtained two OGC documents on specific CDFI funding issues, dated August 21, 1995 and December 11, 1995. In addition, we were provided a November 22, 1996 memorandum from the Assistant Secretary (Management)/Chief Financial Officer to the Under Secretary for Domestic Finance, which referenced an OGC document, dated November 19, 1996, that clarified the authority of the CDFI Director to award grants and other financial assistance. However, this resulted in issues being addressed on a flow basis rather than at the very beginning of implementation in a comprehensive approach.

We were unable to obtain documentation indicating that a comprehensive written analysis identifying and addressing issues related to the legislation was completed when the program was transferred to Treasury. Such a comprehensive written analysis could have provided a basis for addressing issues of interpretation and an understanding (i.e., mission and objectives, funding sources and uses, etc.) of the nature and extent of the operation, which could have assisted both policy and operational staff involved in the endeavor. The results of such an analysis, performed for a grant/loan program, could address issues affecting the award of program funds, organization of the program, and the operating policies and procedures of the program.

Organizational Placement

Organizational placement of CDFI was an issue when it became clear in July 1995, that the program would be under Treasury. The organizational nature (a free standing corporation temporarily located within Treasury as provided in the original legislation or a program within Treasury's DO) and location of the program led to confusion over authority for program operations and funding of support services. As noted in the General Counsel's comments to our draft report (see Appendix 2) "the provisions of Public Law 104-19 relating to the CDFI Fund are in important respects ambiguous".

Treasury Order 101-20, dated August 14, 1995, delegated authority for the program from the Secretary to the Under Secretary for Domestic Finance. This was followed by a

Treasury Directive 11-02, dated November 1, 1995, delegating authority from the Under Secretary for Domestic Finance to the CDFI Director. However, the CDFI placement issue remained unclear to some and was not effectively communicated to all levels of the Department. Consequently, there remained some confusion over how and from what organizations CDFI would obtain support services. We were unable to obtain a copy of any other authoritative document addressing CDFI placement.

In a July 24, 1996 memorandum to the Deputy Chief Financial Officer, the CDFI Director stated that she understood that the organizational placement issue had been clarified. However, in a November 19, 1996 electronic mail message to the Director, Procurement Services, an OGC official was still responding to questions regarding CDFI's organizational placement.

Needs Assessment

A comprehensive written needs assessment for CDFI was not performed. Such a needs assessment performed by knowledgeable policy and management personnel is a critical step to link policy requirements to an operational structure. The needs assessment will identify what resources (i.e., staff, equipment, services) a program requires to effectively and efficiently carry out its objectives, while actively pursuing its mission. Necessary resources can be considered in various functional areas: 1) personnel/staffing; 2) accounting/budget; 3) space; 4) procurement; 5) information technology; 6) telecommunications; and 7) legal. We obtained copies of various memoranda documenting correspondence between Treasury managers and CDFI staff regarding support services. For example, there were numerous documents relating to CDFI attempting to obtain accounting support services.

Certain Treasury officials provided assistance to CDFI. For example, in August 13, 1997 comments provided to our informal draft report, the Deputy Assistant Secretary for Administration, stated that "numerous hours were spent by ASD staff collecting CDFI requirements, evaluating options, and in making recommendations." However, we found no written evidence of a formal analysis by Treasury to identify the specific needs of the program. In addition, the Deputy Assistant Secretary for Administration stated, "It is sometimes difficult to calculate what administrative services are needed because a full assessment of the project needs, i.e., mission, budget, etc., has not been determined."

A new program needs an initial authoritative document drafted and approved that can be referred to subsequently by all staff involved directly or indirectly in the program. This document should be followed by critical decisions being committed to writing in an adequate and timely manner. These decisions would provide clarity on issues, such as where and how the program fits into the organization and how its needs will be fulfilled. Special endeavors need to know where to obtain assistance, while existing components must know what is expected of them. For example, CDFI staff were under the impression

that Treasury would provide their support services. However, some Department officials were unclear as to the status of CDFI.

Implementation Team

Over the long term, a specific consistent team did not oversee the CDFI implementation. Again, needs were addressed on a flow basis rather than as part of a comprehensive approach. Additionally, a team leader was never assigned responsibility for coordinating CDFI support (i.e., identifying/selecting sources for support) within the Department and taking control in getting CDFI established. Initially, (prior to July 1995) when it was believed that CDFI was going to be spun off as a separate government entity, the Deputy Assistant Secretary for Financial Institutions Policy and the Director, Administrative Operations, were providing assistance in coordinating CDFI implementation. However, once the CDFI Director, who had not worked previously in the Federal government, came on board in October 1995, responsibility for implementation was turned over to her and Treasury assistance became more of a piecemeal effort.

Departmental Support Services

The CDFI staff had no significant experience in operating a grants program within the Federal government. Consequently, program staff needed detailed guidance on government processes and operating procedures. This assistance was essential to enable CDFI staff to identify critical needs requirements, as well as alternatives to meeting these needs in a timely and effective manner. However, as noted by Office of General Counsel the Departmental Offices does not administer any significant grant program aside from the CDFI Fund program. Therefore, Departmental Offices had little experiential basis for providing guidance to the new program.

In August 13, 1997 comments to our informal draft report, the Deputy Assistant Secretary for Administration stated the following:

"Currently projects are initiated in the policy offices, but because there is no official path for the special projects, the DAS for Administration may or may not be contacted. Individual offices of the DAS for Administration may be contacted months after the project has taken on life."

The following instances illustrate how Treasury support services were unable to meet CDFI needs.

Accounting

One of the most significant areas of concern regarding Treasury's support provided to CDFI was in accounting services. In an October 26, 1994 memorandum from the Director, Office of Budget, CDFI officials were apprised of the importance of ensuring that adequate

administrative and financial support functions are in place for conducting CDFI start-up operations. In this same memorandum, it was suggested that Financial Management Division (FMD) would be a good candidate to provide financial services to CDFI because this office was "well suited" to provide assistance. However, FMD officials stated that they were not consulted regarding their position or capabilities.

Initially, when it was planned that CDFI was going to become a separate government entity, the role of FMD was to provide initial accounting services to CDFI until the Director was confirmed. This support would be provided without reimbursement, meaning, FMD would absorb CDFI accounting. FMD officials indicated that they were against the idea of providing accounting support to CDFI because FMD lacked sufficient systems and expertise to handle grant/loan accounting and credit reform requirements. The FMD felt that without reimbursement, it would be difficult to provide the support needed. In their July 30, 1997 comments to our informal draft report, FMD stated that they "resisted costly and non-cost-beneficial modifications to the accounting system to provide program accounting that was potentially temporary." Additional FMD comments reflected the following:

"It is undeniable that changes in Administration do have an effect on resource usage. Each successive political appointee has priorities that supersede previous activities. Limbo during transition periods is unavoidable, and preferable to costly expenditures of limited resources that may result in being wasted when priorities shift."

In July 1995, when CDFI was placed in the Treasury Department, the program needed to find a permanent home for its accounting services. At this point, it became unclear to Department officials, as well as CDFI staff, who would provide financial services support.

While actually providing operational accounting services to CDFI (without reimbursement), FMD officials continued to resist providing program accounting services and ongoing operational accounting services to CDFI because of costs related to systems implementation and training. Although CDFI had only seven loans in its first award cycle, FMD officials believed that CDFI had the potential of becoming much larger with numerous loans. Additionally, FMD officials reported that, with a potential change in administration, it was quite possible that CDFI could be terminated, in which case FMD could face staffing overages.

The FMD officials stated that they orally recommended that CDFI consider a Treasury bureau, FMS, for accounting support because FMS was knowledgeable in credit reform and had the necessary systems in place. In a November 30, 1995 memorandum to CDFI officials, FMD stated that it did not have the technical expertise to meet CDFI requirements. In a July 1996 memorandum from the Deputy Assistant Secretary for Administration to the CDFI Director, it was stated that CDFI would need to acquire financial services support from another source. On July 18, 1996, CDFI executed a

reimbursable agreement with FMS to provide consulting services to FMD personnel on year-end credit reform reporting for Fiscal Year 1996.

A series of memoranda and electronic mail messages between Department and CDFI officials described various accounting concerns. A July 24, 1996 memorandum from the CDFI Director to the Deputy Chief Financial Officer, stated that FMS' assistance to FMD on credit reform was a short term solution and that CDFI was focusing on long term options (i.e., soliciting cost proposals from other Treasury organizations). It was CDFI's understanding that should a permanent resolution not be in place precisely on October 1, 1996, the existing servicing arrangement with FMD would continue until a permanent solution had been found. The Director felt that since CDFI was a new and highly visible program at Treasury, it should receive accounting services from a Treasury organization, not another Federal agency. The Director also believed that the Deputy Chief Financial Officer "shared this conviction". Additionally, the Director welcomed input on the issue and suggested regular meetings between the two offices until the issue was resolved.

In a July 25, 1996 memorandum to the CDFI Director, the Deputy Chief Financial Officer reiterated that FMD would not be able to provide services to CDFI and that existing services would be terminated on September 30, 1996. Additionally, the memorandum stated that in response to the belief that financial services should be provided within the Treasury Department, this was "not a conviction on my part, but a parameter that CDFI imposed on the discussions."

In July 30, 1997 written comments to our informal draft report, FMD officials stated the following:

"Departmental Offices do not have unlimited resources, in fact there has been a continuing reduction of available resources for the last four to five years. This has had a severe impact on the ability to supply administrative support as quickly, and to the level, that some offices may request."

During July 1996, CDFI requested proposals from BPD, FFB, FMD and FMS to provide the accounting support. The FMD officials were directed by Treasury senior management to submit a proposal. The CDFI hired an independent consulting firm to provide assistance in reviewing the proposals. The consulting firm's analysis of costs for the accounting services is stated in the following chart³:

³ CDFI Accounting Alternatives Analysis - Overview of Results, dated November 9, 1996, issued by Ernst and Young, LLP.

<u>Organization</u>	<u>Setup Costs</u>	<u>Annual Fees</u>	<u>Total Charges</u>
BPD	\$37,782	\$ 57,285	\$ 95,067
FFB	\$25,000	\$107,252	\$132,252
FMD	\$82,500	\$ 69,800	\$152,300
FMS	\$84,310	\$157,280	\$241,590

The above analysis was included in a report issued by the consulting firm to CDFI officials. BPD was awarded a contract to provide accounting support to CDFI. The CDFI officials stated that BPD has a proactive attitude and is ready and willing to work with CDFI. After a 6-month phase-in period, all administrative and program accounting for CDFI was turned over to the Office of Administration - Franchise Services, BPD, on May 27, 1997.

The FFB officials informed us that it would have been difficult to provide accounting services to CDFI because FFB was in the process of: 1) completing the general ledger for its Loan Management and Control System and 2) transferring its FMS accountants to FFB in August 1996. However, FFB officials advised that FFB could probably handle accounting for CDFI sometime in 1998.

Budget

The FMD assisted CDFI in requesting budget apportionments from OMB, as well as setting up various cost centers. The FMD officials stated that CDFI budget apportionments were difficult because the funding amounts covered multiple fiscal years. Consequently, amounts had to be categorized on separate apportionment forms to accommodate FMD system requirements. In July 30, 1997, written comments to our informal draft report, FMD officials stated the following:

"In the beginning, when CDFI funds were required to be apportioned, they were done by FMD with inadequate assistance from OMB and CDFI. Since FMD was not familiar with the account, and claimed no expertise with loans and grants, there were numerous communications with CDFI and OMB staff."

The FMD advised that budget difficulties with CDFI were the result of: 1) the unique CDFI requirements, being "dropped" on FMD, 2) the lack of anyone among CDFI staff being able to adequately explain their needs (FMD never obtained a clear definition of CDFI's mission or needs) and 3) OMB budget examiners not understanding how to handle CDFI allotments. The FMD also advised us that if new or unique accounts are needed related to an endeavor, sufficient lead time is necessary to ensure that accommodating systems and resources are in place.

Certain problems arose regarding CDFI budget account. For example, FMD took the position that multi-year funding could not be listed on one appropriation request (there needed to be a separate form for each year). However, OMB indicated that multi-year funding could be on one form. In addition, although OMB directly apportioned CDFI's funds, FMD requested a legal review of the Fiscal Year 1996 continuing resolution. Later, OGC officials agreed with OMB's apportionment.

OMB staff involved with CDFI attributed much of the difficulties to the FMD staff's lack of experience. Additional problems cited by OMB were FMD staff's lack of credit reform knowledge and CDFI staff's lack of Government experience.

Procurement

Our analysis showed that DO Procurement Services was responsive to CDFI requests, but unable to provide specific expertise related to grants and loan management issues. For example, significant confusion arose between CDFI and Procurement Services staff relating to whether CDFI awards were actually contracts, covered under the Federal Acquisition Regulations, or Federal grants.

Confusion arose between CDFI and Procurement Services over what official documents should be used for CDFI awards. Procurement Services officials advised that they offered to set up a separate office to support CDFI, but that CDFI declined. The CDFI officials stated that Procurement Services officials attempted to apply standard Federal contract clauses and terminology to CDFI award documents which was inappropriate for grants.

In August 13, 1997 comments to our informal draft report, the Deputy Assistant Secretary for Administration maintained that:

"Awards" includes contracts (including loans, by OMB Red Book definition (sic), a form of contract), grants, and cooperative agreements. Procurement Services attempted to educate the program office as to the differences, but the program office was not interested in the distinction."

At the request of Procurement Services, CDFI officials sought opinions from officials of the Department of Housing and Urban Development, Small Business Administration and Department of Commerce. In each case, officials at these agencies agreed that CDFI awards were Federal grants and that documentation should be appropriate to grant and loan awards. Finally, after several consultations between officials from CDFI and Procurement Services, it was agreed in the summer of 1996, that CDFI awards were in fact Federal grants and should be treated as such. In a November 19, 1996 electronic mail message to the Director, Procurement Services, an OGC official advised that Federal Acquisition Regulation Subpart 1.6, "Career Development, Contracting Authority, and Responsibilities", does not apply to the award of assistance instruments. Meanwhile, the

confusion by contracting officials over whether CDFI awards were contracts or grants led to significant inefficiencies in staff time and resources for both CDFI and Procurement Services.

In August 13, 1997 comments to our informal draft report, the Deputy Assistant Secretary for Administration stated the following:

"An extensive series of contract and grant agreements, tailored to meet CDFI requirements but responsive to federal requirements, was developed. CDFI rejected the use of these materials, stating that they were too detailed and complex for CDFI and the recipients of these funds to understand (even though the agreements were drafted with the recipients in mind). At the last minute, we agreed to use alternative forms approved by Treasury General Counsel to assure protection of the funds."

Personnel/Staffing

Personnel Resources provided a base level of support to CDFI. However, we identified instances where DO could not provide adequate support to CDFI staff. For example, during 1996, CDFI wanted to bring on board a Presidential Management Intern (PMI) candidate. Personnel Resources officials explained to CDFI that they could in fact bring a PMI on board, however, an issue arose concerning whether the PMI could transfer to CDFI with full-time career status or with a limited term designation. Given the previous Congressional budget recession of CDFI's appropriation, Personnel Resources officials questioned where the individual would be placed if the CDFI program was terminated.

Through assistance provided by Office of Personnel Policy and Office of Personnel Management officials, CDFI staff decided that the PMI employee should sign a limited temporary term document. Specifically, 5 C.F.R. § 213.3102(ii) states the following with respect to PMI procedures:

"No one may serve under this authority for more than 2 years, unless extended with OPM approval for up to one additional year. Upon completion of 2 years of satisfactory service under this authority, the employee may qualify for conversion to competitive appointment under the provisions of Executive Order 12364, in accordance with the provisions of section 315.708 of this chapter and requirements published in the Federal Personnel Manual."

Staff Proactiveness

Overall, CDFI staff were proactive in operating the program. The following examples illustrate CDFI staff actively addressing issues and concerns timely and efficiently.

The CDFI officials solicited assistance from private organizations, as well as other Treasury bureaus. In July 1996, CDFI hired an independent consulting firm to evaluate proposals submitted by several Treasury organizations to provide financial and accounting services for CDFI. The consulting firm was also retained to identify alternative procedures for reviewing award applications. Additionally, the CDFI Director solicited comments from the OIG, as well as OGC in preparing CDFI's interim operating regulations.

CDFI officials consulted with officials at other Federal agencies on certain policy and procedural issues. When confusion arose as to whether CDFI awards were covered under the Federal Acquisition Regulations, CDFI staff consulted with officials from the Department of Housing and Urban Development, Small Business Administration, and Department of Commerce. Additionally, when confusion arose within Treasury's personnel office over hiring a PMI, CDFI staff contacted the Office of Personnel Management for clarification.

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